

Message Text

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E.O. 11652: N/A

TAGS: EEC, PO

SUBJECT: EC COMMISSION VIEWS ON NEXT STEPS FOR PORTUGAL

REFS: (A) EC BRUSSELS 9056 (B) EC BRUSSELS 8967

1. SUMMARY: THE EC COMMISSION PLANS TO MOVE AS FAST AS POSSIBLE TO GET THE 150 MILLION UNITS OF ACCOUNT (U.A.) IN EMERGENCY AID TO PORTUGAL APPROVED BY THE COUNCIL FLOWING. A TEAM FROM THE COMMISSION AND THE EUROPEAN INVESTMENT BANK WILL GO TO PORTUGAL IN OCTOBER OR NOVEMBER TO BEGIN IDENTIFYING PROJECTS. EVEN IF ALL GOES WELL, HOWEVER, FUNDS WILL NOT CHANGE HANDS BEFORE THE MIDDLE OF NEXT YEAR. THE COMMISSION HAS PROPOSED A NEGOTIATING MANDATE TO THE COUNCIL FOR GRANTING PORTUGAL ADDITIONAL ADVANTAGES UNDER THE 1973 EC-PORTUGAL AGREEMENT AND SOME NOT FORESEEN IN THAT AGREEMENT. INCLUDED IN THIS PACKAGE IS A COMMISSION PROPOSAL FOR A FINANCIAL PROTOCOL TOTALING 400 MILLION U.A. OUR SOURCE EXPECTS THE COUNCIL TO CUT THAT FIGURE. END

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SUMMARY.

2. ACCORDING TO MISS NIELSEN, OFFICER IN CHARGE FOR SOUTHERN EUROPE IN THE EC COMMISSION DIRECTORATE GENERAL FOR EXTERNAL RELATIONS, THE EC IS PREPARED TO MOVE AS QUICKLY AS POSSIBLE TO GET THE 150 MILLION U.A. IN EMERGENCY AID WHICH WAS APPROVED BY THE EC COUNCIL (REFTELS) FLOWING. A MAJOR CONSIDERATION IN DETERMINING HOW FAST THIS CAN BE DONE IS HOW HELPFUL THE PORTUGUESE ARE PREPARED TO BE IN IDENTIFYING PROJECTS. ACCORDING TO MISS NIELSEN, THE WORLD BANK, WHICH HAS HAD CONTINUING CONTACT WITH THE PORTUGUESE, HAS TOLD THE COMMISSION THAT THE PORTUGUESE HAVE BEEN BUSY AND HAVE DEVELOPED A LARGE NUMBER OF APPARENTLY MERITORIOUS PROJECTS. WORLD BANK OFFICIALS BELIEVE THAT BEHIND THE SENIOR GOVERNMENTAL AND MILITARY PEOPLE ON THE POLITICAL LEVEL, THERE EXISTS A USEFUL STRATA OF COMPETENT TECHNICIANS WHOSE WORK HAS BEEN ONLY marginally DISRUPTED. IF THIS PROVES TRUE, THE PROGRESS MAY BE FAIRLY RAPID. THE COMMISSION AND THE EUROPEAN INVESTMENT BANK (EIB) INTEND TO SEND A DELEGATION TO PORTUGAL IN EITHER OCTOBER OR NOVEMBER TO BEGIN TO IDENTIFY PROJECTS.

3. ACCORDING TO MISS NIELSEN A POSITIVE FACTOR IS THE EXISTENCE IN PORTUGAL OF AN APPARENTLY EFFECTIVE DEVELOPMENT BANK. ONE OF THE TASKS OF THE COMMISSION AND EIB EXPERTS ON THEIR VISIT TO PORTUGAL WILL BE TO TAKE SOUNDINGS WITH THIS BANK. IF IT PROVES TO BE AS EFFECTIVE AS THE WORLD BANK HAS INFORMED THE COMMISSION IT IS, IT IS CONCEIVABLE THAT THE EIB WOULD BE ABLE TO CHANNEL SOME OF THE 150 MILLION U.A. THROUGH IT. MISS NIELSEN BELIEVES THAT EVEN THOUGH THE EIB WOULD HAVE TO APPROVE INDIVIDUAL PROJECTS SELECTED BY THE PORTUGUESE DEVELOPMENT BANK, THE MECHANICS OF VETTING THE PROJECTS WOULD BE HANDLED BY THE PORTUGUESE BANK WHICH WOULD CONSIDERABLY SIMPLIFY THE EIB'S TASK. UNDER THE POSSIBLE SCENARIO IMAGINABLE, HOWEVER, MISS NIELSEN BELIEVED THAT NONE OF THE 150 MILLION U.A. OF EMERGENCY AID WILL BEGIN TO FLOW UNTIL THE MIDDLE OF 1976.

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4. MISS NIELSEN NOTED THAT THE EIB GENERALLY DOES NOT TAKE MORE THAN A 40 PERCENT PARTICIPATION IN A GIVEN PROJECT WITH THE BALANCE BEING SUPPLIED BY OTHERS. SHE ACKNOWLEDGED THAT FOREIGN INVESTORS AND EVEN PRIVATE PORTUGUESE INVESTORS MIGHT BE RELUCTANT TO TAKE POSITIONS IN PORTUGAL AT THIS TIME BUT SHE DID NOT THINK THIS WOULD PROVE TO BE A MAJOR DETERRENT TO GETTING EIB FUNDS ON STREAM SINCE

CURRENTLY SOME 60 PERCENT OF PORTUGAL'S ECONOMIC ACTIVITY HAS BEEN NATIONALIZED AND THE PORTUGUESE GOVERNMENT MIGHT BE IN A POSITION TO MAKE THE NECESSARY INVESTMENTS. MISS NIELSEN ACKNOWLEDGED THAT OVER THE LONGER RUN IT WAS IMPORTANT THAT FOREIGN INVESTORS ALSO PARTICIPATE BUT THEIR FAILURE TO DO SO NOW WOULD NOT BLOCK IMMEDIATE PROGRESS.

5. WITH RESPECT TO THE COUNCIL DECISION COMMITTING THE COMMUNITY TO COMPILE AN INVENTORY OF BILATERAL EFFORTS OF THE MEMBER STATES, MISS NIELSEN SAID THAT A JOINT COMMITTEE WOULD BE ESTABLISHED CONSISTING OF REPRESENTATIVES FROM THE COMMISSION, THE EIB, THE MEMBER STATES AND THE PORTUGUESE GOVERNMENT. CURRENTLY, SHE ACKNOWLEDGED, ONLY THE GERMANS HAVE MADE ANY FIRM COMMITMENT AND THE COMMITTEE WOULD NOT HAVE MUCH TO DO AT THE START. SHE EXPECTS OTHER MEMBER STATES WILL MAKE COMMITMENTS SOON, HOWEVER, AND SHE IS HOPEFUL THAT THE COMMITTEE WILL PROVE USEFUL. SHE SAID THAT ONE OF ITS FUNCTIONS WILL BE TO ASSIST IN PREVENTING OVERLAP BETWEEN PROJECTS NOT ONLY OF THE NINE, BUT OF OTHERS. SHE NOTED, FOR EXAMPLE, THAT THE GERMANS HAD MENTIONED LOW COST HOUSING AS A POSSIBLE IMPORTANT RECIPIENT OF THE GERMAN CONTRIBUTION AND THAT THE US GOVERNMENT ALSO HAD A \$20 MILLION PROGRAM IN THIS AREA WITH PRIVATE FUNDS BEING GUARANTEED BY AID. WHILE LOW COST HOUSING IS A USEFUL PROJECT FOR DEVELOPMENT ASSISTANCE SINCE IT PROVIDES BOTH JOBS AND A NEED FOR MATERIALS, IT MAY BE THAT ADDING A GERMAN PROJECT ON TOP OF THE EXISTING AMERICAN PROGRAM MIGHT BE TOO MUCH OF A GOOD THING. IN THIS CONNECTION SHE WELCOMED THE US OFFER TO CONSULT ON ASSISTANCE TO PORTUGAL.

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6. MISS NIELSEN NOTED THAT THE COUNCIL DECISION TO NEGOTIATE ADDITIONAL BENEFITS UNDER THE 1973 AGREEMENT, AND SOME NOT FORESEEN IN THAT AGREEMENT, CALLED FOR A START TO BE MADE BEFORE THE END OF THE YEAR. SHE SAID THE NEXT STEP IN THIS PROCESS IS UP TO THE COUNCIL WHICH MUST ADOPT A NEGOTIATING MANDATE UNDER WHICH THE COMMISSION CAN OPERATE. THE COMMISSION HAS ALREADY MADE PROPOSALS IN A NUMBER OF AREAS INCLUDING THE CONCLUSION OF A FINANCIAL PROTOCOL AND BROADENED TRADE CONCESSIONS. IF THE COUNCIL IS TO MAINTAIN ITS OWN SCHEDULE, SHE SAID, IT WOULD HAVE TO APPROVE A MANDATE NO LATER THAN THE DECEMBER SESSION.

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7. SHE SAID IT WAS IMPOSSIBLE TO PREJUDGE HOW LARGE THE FINANCIAL PROTOCOL WOULD BE. SHE NOTED THAT THE COMMISSION HAD PROPOSED TO THE COUNCIL AN EMERGENCY AID PACKAGE OF 700 MILLION U.A. OVER THREE YEARS AND THE COUNCIL HAD ONLY APPROVED 150 MILLION U.A. OVER TWO YEARS. THE COMMISSION PROPOSAL FOR A FINANCIAL PROTOCOL, SHE SAID, WAS FOR 400 MILLION U.A. SINCE THE EMERGENCY AID PACKAGE HAD BEEN REDUCED SO DRAS-
TICALLY BY THE COUNCIL, IT IS THE COMMISSION'S VIEW THAT THE FINANCIAL PROTOCOL SHOULD BE EVEN LARGER BUT SHE IS NOT SANGUINE ABOUT THE COUNCIL'S APPROVING EVEN THE 400 MILLION U.A. FIGURE.

8. THERE WILL BE TROUBLE OVER SOME OF PORTUGAL'S REQUESTS FOR PREFERENTIAL TARIFF TREATMENT, PARTICULARLY IN TEXTILES AND WINES. FOR WINE THE PORTUGUESE WANT LARGER QUOTAS FOR PORT, MADEIRA AND CERTAIN OTHER HIGH QUALITY WINES. SHE NOTED THIS WAS A DIFFICULT TIME FOR THE COMMUNITY TO MAKE ANY CONCES-
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SIONS IN THE WINE FIELD. THE PORTUGUESE ALSO WANT HIGHER CEILINGS ON THEIR TEXTILE EXPORTS.

9. IN LUXEMBOURG, MISS NIELSEN SAID, ANTUNES HAD SUGGESTED TWO ADDITIONAL MEASURES FOR THE NGOTIATIONS WHICH HAD NOT BEEN INCLUDED IN THE COMMISSION'S EARLIER PROPOALS TO THE COUNCIL. HE SUGGESTED EITHER THAT GSP BE EXTENDED TO PORTUGAL WHICH WOULD BE IN LINE WITH THEIR REQUEST TO THE DEVELOPMENT ASSISTANCE COMMITTEE THAT THEY BE CLASSIFIED AS AN LDC OR, ALTERNATIVELY, THAT THE COMMUNITY REDUCE PORTUGUESE TARIFFS ACROSS THE BOARD. THE COMMUNITY, SHE SAID, HAD NOT BEEN IN A POSITION TO COMMENT ON THESE PROPOSALS IN LUXEMBOURG, BUT THE COMMISSION IS NOW LOOKING INTO THEM.

10. ANOTHER PORTUGUESE DEMAND IN THE TRADE FIELD, MISS NIELSEN BELIEVES, WILL BE EXTENSION OF PREFERENTIAL TREATMENT TO A LARGER PRECENTAGE OF PORTUGUESE AGRI-CULTURAL EXPORTS. SHE SAID THE CURRENT AGREEMENT ONLY COVERS SOME 60 PERCENT OF THESE WHEREAS THE SAME FIGURE IN THE ISRAELI AGREEMENT IS ABOUT 85 PERCENT AND IN THE SPANISH AGREEMENT ALMOST 75 PERCENT.

11. MISS NIELSEN ACKNOWLEDGED THAT THE PORTUGUESE SHOPPING LIST WAS FAIRLY EXTENSIVE AND THAT IT WAS PROBABLE THAT THE COUNCIL WOULD NOT APPROVE IT ALL. SHE BELIEVES, HOWEVER, THAT THE PORTUGUESE ARE SENSIBLE ENOUGH TO REALIZE THAT HALF A LOAF IS BETTER THAN NONE AND THEY WILL PROCEED WITH NEGOTIATIONS ON WHATEVER MANDATE IS APPROVED BY THE COUNCIL, HOLDING THEIR ADDITIONAL DESIDERATA IN RESERVE FOR FUTURE NEGOTIATIONS.

12. MISS NIELSEN ACKNOWLEDGED THAT THE MOST IMMEDIATE PROBLEM FOR PORTUGAL WAS BALANCE OF PAYMENTS WHICH WOULD NOT BE SOLVED IN THE SHORT RUN BY ANY OF THE ACTIONS CONTEMPLATED BY THE COMMUNITY. SHE DID NOT KNOW HOW THIS WOULD BE RESOLVED. THE PORTUGUESE, SHE BELIEVED, WERE NEARING THE END OF THEIR MONETARY RESERVES AND WERE RELUCTANT TO DIP INTO THEIR GOLD RESERVES FOR BALANCE OF PAYMENTS PROBLEMS. MOREOVER SALE OF PORTUGUESE GOLD

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WOULD IN ALL LIKELIHOOD DEPRESS THE GOLD MARKET REDUCING THE PROCEEDS OF SUCH A SALE. SHE SAID THAT ALTHOUGH THE PORTUGUESE BORROWING POSITION IN THE IMF

WAS RELATIVELY STRONG, THEY WOULD ENCOUNTER PROBLEMS
IN DEALING WITH THE IMF OR OTHER INTERNATIONAL LENDING
INSTITUTIONS ALL OF WHICH REQUIRED THAT THE DEVELOP-
MENT POLICIES OF BORROWING STATES BE APPROVED. SHE
FELT THAT THE PORTUGUESE GOVERNMENT AT THIS TIME WAS
NOT IN A POSITION TO PRESENT AN INTERNATIONAL LENDING
ORGANIZATION WITH A DEVELOPMENT PROGRAM THAT WOULD
BE SUFFICIENTLY COHERENT TO BE ACCEPTABLE. GREENWALD

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